FDIC State Profile

Summer 2005

Indiana

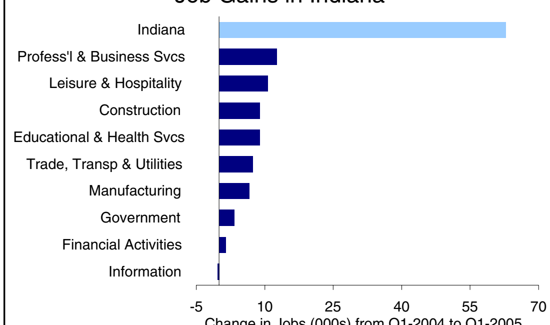
Indiana posts solid job gains.

- Indiana posted the 14th highest employment growth rate in the country, with a year-over-year increase of 2.2 percent in first quarter 2005. Only the information sector experienced job losses.
- The state added 62,800 jobs during the year-ending first quarter 2005. More than 50 percent of the new jobs came from the professional and business services, leisure and hospitality, and construction sectors (See Chart 1).
- The construction sector added 8,800 jobs and reported year-over-year employment growth at 6.7 percent, largely because of favorable interest rates fueling ongoing construction of condominium and townhouse developments in the **Indianapolis** central business district.
- The Indianapolis, **South Bend-Mishawaka**, **Columbus**, and **Elkhart-Goshen** metropolitan areas each posted job growth greater than the state average. The Indianapolis metropolitan area, which accounts for 30 percent of the state's employment, gained 21,300 new jobs. In contrast, **Evansville**, **Kokomo**, and **Muncie** were the only metropolitan areas to post job losses. Muncie's unemployment rate rose to 7.7 percent, its highest since 1991.

Indiana homes remain affordable and household conditions are seen as improving.

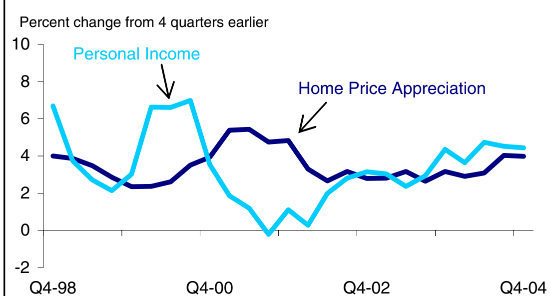
- Stronger labor markets, combined with personal incomes growing more rapidly than home values, helped to maintain housing affordability in the state. Indiana boasts one of the nation's highest home ownership rates; however, it also has the lowest home appreciation rate in the country.
- Since the end of the 2001 recession, Indiana's per capita personal income growth accelerated nearly every quarter. During 2004, personal income growth averaged 4.3 percent, while homes in the state appreciated by an average 3.5 percent (See Chart 2).
- Indiana continued to experience a higher per capita bankruptcy rate relative to the nation. However, the gap

Chart 1: All Major Sectors Experienced Job Gains in Indiana



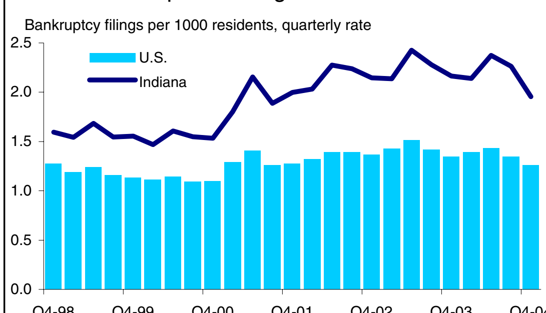
Source: Bureau of Labor Statistics

Chart 2: Personal Income Growth Edged Past Home Price Appreciation



Sources: Office of Federal Housing Enterprise Oversight; Bureau of Economic Analysis

Chart 3: Indiana Bankruptcies Still High, but Gap is Closing on National Rate



Source: Administrative Office of the U.S. Courts between state and national rates declined sharply in fourth quarter 2004, perhaps demonstrating that growing labor markets are beginning to improve household conditions (See Chart 3).

Profitability at Indiana's community institutions[1] remained stable but below the nation.

- Pre-tax return on assets in first quarter 2005 was unchanged from a year ago. Small gains in net interest and noninterest income were offset by fewer securities gains (See Table 1).

- Net interest margins increased by 4 basis points from a year ago to 3.6 percent in March 2005, as higher asset yields exceeded increases in funding costs. Bank funding costs are poised to increase more rapidly than asset yields through 2005 should the yield curve continue to flatten.

- Growth in noncore funding sources continued to fuel growth in Indiana's community institutions. Core funding, as a percent of assets, declined 137 basis points from a year ago to 62.3 percent as of first quarter 2005.

- Profitability of Indiana's community institutions remained below levels of most other states partly because of a higher volume of 1-4 family residential mortgage loans, which are typically lower yielding than other loan segments, and a higher cost of funds.

Adjustable-rate mortgages (ARMs) become increasingly popular.

- Consistent with a national trend, Indiana home buyers increasingly selected ARMs during the past two years, despite the fact that the fixed rate for a 30-year mortgage has remained near historic lows since 2003 (See Chart 4). Accelerated home price appreciation, more investment purchases of homes, and an increasingly mobile work force that contemplates frequent relocations may be contributing to the increased use of ARMs.

- The concentration of 1-4 family ARMs reported by the state's insured institutions decreased slightly over the last two years from 14.4 percent of loans two years ago to 14.2 percent as of first quarter 2005.

Asset quality improves across most loan categories for community institutions.

- Delinquency rates decreased by 13 basis points over the past year to a low 1.9 percent. Most major loan categories saw improvement; however, delinquency rates in construction and commercial loans deteriorated somewhat (See Chart 5).

[1]Community institutions are insured institutions with less than $1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.

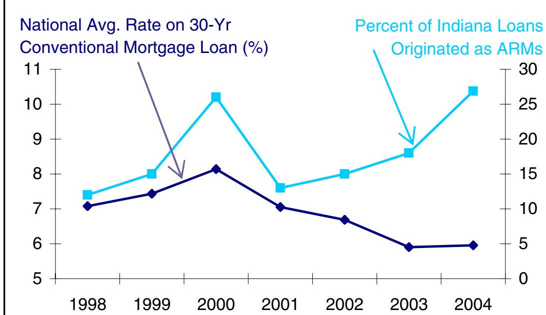
- Net charge-off rates declined by 8 basis points from a year earlier to 0.1 percent for first quarter 2005 and remain very low.

Table 1: Profitability Remained Unchanged as Lower Security Gains Offset Higher Asset Yields

Income statement contribution (percent of average assets)	3 months ended March 31		Percentage Point Change
	2004	2005	
Net Interest Income	3.26	3.29	0.03
Noninterest Income	0.76	0.77	0.01
Noninterest Expense	-2.68	-2.69	-0.01
Provision Expense	-0.18	-0.17	0.01
Security Gains & Losses	0.06	0.02	-0.04
Pretax Net Income	1.22	1.22	0.00
Income Taxes	-0.36	-0.41	-0.05
Net Income (ROA)	0.86	0.81	-0.05

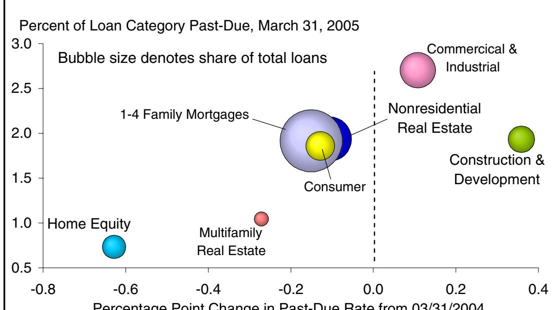
Source: FDIC. Merger-adjusted data for Indiana's Community Institutions

Chart 4: Popularity of ARMs Increased Recently Despite Low Rates on Fixed-Rate Mortgages



Source: Federal Housing Finance Board

Chart 5: Loan Quality Improved Across Most Major Portfolio Categories



Source: FDIC. Merger-adjusted data for Indiana's Community Institutions

Indiana at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.2%	0.4%	0.2%	-2.4%	-1.6%
Manufacturing (19%)	1.2%	-2.0%	-1.1%	-7.5%	-5.3%
Other (non-manufacturing) Goods-Producing (5%)	6.3%	1.2%	-2.9%	1.2%	-4.0%
Private Service-Producing (61%)	2.5%	0.9%	0.5%	-1.4%	-0.4%
Government (14%)	0.8%	1.3%	2.1%	0.0%	0.4%
Unemployment Rate (% of labor force)	5.6	5.3	5.1	5.3	3.5

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	4.3%	3.6%	0.8%	2.5%
Single-Family Home Permits	-6.9%	12.5%	-7.3%	-7.2%	4.4%
Multifamily Building Permits	-20.0%	37.6%	-29.7%	20.1%	-14.5%
Existing Home Sales	4.6%	0.6%	-2.0%	15.6%	-0.3%
Home Price Index	4.1%	2.9%	2.8%	3.3%	5.4%
Bankruptcy Filings per 1000 people (quarterly level)	2.10	2.14	2.14	2.03	1.80

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	193	204	209	214	218
Total Assets (in millions)	101,842	112,523	129,646	123,234	103,505
New Institutions (# < 3 years)	2	4	7	9	9
Subchapter S Institutions	16	16	16	14	13

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.82	1.97	2.51	2.25	2.02
ALLL/Total Loans (median %)	1.12	1.15	1.19	1.14	1.11
ALLL/Noncurrent Loans (median multiple)	1.56	1.37	1.27	1.30	1.65
Net Loan Losses / Total Loans (median %)	0.14	0.13	0.12	0.13	0.12

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.57	9.54	9.49	9.30	9.39
Return on Assets (median %)	0.85	0.85	0.89	0.90	0.87
Pretax Return on Assets (median %)	1.22	1.22	1.29	1.27	1.27
Net Interest Margin (median %)	3.91	3.91	3.93	3.96	3.94
Yield on Earning Assets (median %)	6.85	6.85	6.97	7.19	7.49
Cost of Funding Earning Assets (median %)	2.97	2.97	3.10	3.28	3.67
Provisions to Avg. Assets (median %)	0.12	0.12	0.15	0.13	0.12
Noninterest Income to Avg. Assets (median %)	0.64	0.66	0.67	0.64	0.62
Overhead to Avg. Assets (median %)	2.85	2.83	2.80	2.79	2.77

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	70.6	68.8	68.3	68.5	71.3
Noncore Funding to Assets (median %)	22.0	22.2	21.5	20.7	21.2
Long-term Assets to Assets (median %, call filers)	21.3	22.4	21.1	22.9	22.6
Brokered Deposits (number of institutions)	62	53	47	40	35
Brokered Deposits to Assets (median % for those above)	4.6	3.9	2.8	2.2	3.0

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	63.3	64.5	62.8	64.2	64.0
Commercial Real Estate	167.8	143.7	137.6	128.1	116.7
Construction & Development	28.5	22.3	19.1	18.3	17.7
Multifamily Residential Real Estate	5.6	4.8	4.1	4.2	4.1
Nonresidential Real Estate	122.3	117.3	96.0	89.9	80.0
Residential Real Estate	303.0	300.4	309.3	328.9	328.9
Consumer	39.3	45.2	50.4	60.5	74.1
Agriculture	27.2	27.8	30.6	30.7	38.9

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Indianapolis, IN	54	23,609	< $250 million	131 (67.9%)
Evansville, IN-KY	20	4,851	$250 million to $1 billion	47 (24.4%)
Fort Wayne, IN	23	4,521	$1 billion to $10 billion	14 (7.3%)
South Bend-Mishawaka, IN-MI	15	3,215	> $10 billion	1 (0.5%)
Columbus, IN	8	2,404		